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ABSTRACT

Housing and social conditions in urban America suggest a major shift of the inner city poor to the older suburban neighborhoods. This paper explores that anticipated massive population exchange and suggests ways to measure its effect on the schooling process. The concern here is that thousands of poor city dwellers will relocate to the suburbs and thousands of middle class suburban dwellers will relocate in the inner city. The urban middle class influx is already being encouraged by cities' efforts to acquire Federal mortgage money. This population shift will involve a shift in both class and racial composition that will cause social problems for receiving schools in both community types, the inner city and suburbs. Now is the time to plan for this population shift, not in the middle of the confusion that is certain to come. (Author/EB)

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THE GREAT EXCHANGE OF PEOPLE BETWEEN CITIES AND SUBURBS IN THE 1980s: IMPLICATIONS FOR EDUCATION

by

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This paper seeks to explore the impact of an anticipated massive population exchange between cities and their suburbs; and to suggest ways to measure its effect on the schooling process. The concern here is that thousands of poor city dwellers will relocate to the suburbs and thousands of middle class suburban dwellers will relocate in the inner city. This shift in population will involve both a shift in huge population classes and races that will cause social problems for receiving schools in both community types, the inner city and suburbs.

The dynamics of this population shift is already evident in several communities and the magnitude of the shift depends upon the relative age of the inner city and its surrounding suburbs; and the quality of the suburban housing. In several of the older and midwestern cities, with older suburbs the shift has already begun; while the situation is spotty in western metropolitan areas. For example, in the New York City metropolitan area, according to Dr. Robert Weaver (Weaver, 1977), former Secretary of Housing and Urban Development (HUD) the suburbanization started around 1900, slowed down during the 1930's and mushroomed in the 1950's and '60's. Mount Vernon, the fifth largest town in New York State and a suburb of New York is now about 40 percent black and lower middle class; and the public school population is more than 60 percent black. A similar situation exists in Hempstead on Long Island; and to a lesser extent in several other communities surrounding New York City. This situation may be repeated in other large cities around the country. The movement of the city poor tend to start first in the older suburban ring surrounding the city. However, to understand why this pattern is not uniform one must understand how housing is passed along among the different socioeconomic classes.

There is a general law of housing supply and demand operating in this country. First, the poor will always occupy the least expensive housing; middle class families will occupy moderately priced housing; and wealthy families will occupy the most expensive housing. As houses began to age and deteriorate they are passed on to the next lower class. Therefore, aged and deteriorated homes of the wealthy are passed on to the middle class; and as they age further, the middle class will pass them on to the lower middle class. Wealthy homes must move through a three phase process before they become available for the poor. Aged middle class homes are passed on to the working poor, a two phase process. Aged homes of the working poor or lower middle class can only be passed on to other lower middle class families, a one phase process. Therefore, the quality and cost of homes in a particular community will determine the speed of outward migration. Scarsdale, a wealthy neighborhood may be decades away from accepting middle class or poor families; while White Plains which is further away from New York City will have an immediate influx of lower middle class families; and the same may be said about the Nassau County area adjacent to New York City compared to Hempstead.

There is another factor that will expedite the outward flow of lower middle class blacks to the older suburbs into aging middle class housing (one bathroom homes built after World War II) is that there is no longer a demand by middle class whites or blacks for these homes despite their suburban location. Still another factor is growing efforts by states to reduce redlining. The implication of redlining for black lower middle class family homeowners in the city who desire suburban living is that he/she cannot move until the banks will loan perspective buyers mortgage

money to purchase a home. The abatement of redlining will allow these families to sell their homes to other poor families and to keep the housing chain moving from one economic class to the next; or, the inner city dweller may now sell his home to a large housing developer.

Immigration from suburbia to the inner city will also be aided by a reduction in redlining. However, it seems like a fair conclusion that if banks are forced to invest mortgage money in the inner city, it will be on homes that only middle and upper middle class families can afford. As blocks of older inner city homes are demolished and replaced with high cost ones, the poor will move to the only available housing for the poor, the older suburbs. Once these homes are built it will take another 50 years for this cycle of housing exchange among the different classes to repeat itself.

The population exchange will also be influenced by the money market. Ironically, when the economy is poor there is more mortgage money for new homes due to small investors taking their money out of stocks and bonds and putting it in savings banks where profits for its use are guaranteed. Therefore, more money becomes available for home mortgages, which is what we are now experiencing. And when the economy is healthy small investors return to the stock market by taking their money out of savings banks, thereby reducing money for home mortgages. Or, when individual savings are reduced by rising inflation mortgage money for new homes seems to disappear which is what's happening today. In the immediate future mortgage money will be available only for upper middle class homes where large down payments are required; a condition when mortgage money is tight; and one that will eliminate the building of low and middle income housing. This condition will stimulate the

exchange of existing houses discussed earlier. While mortgage money for new middle class housing will decline in suburbia it will increase in the central city with special state mortgage guarantees to reduce the effects of redlining as evidence in New York City and in Chicago. In New York City banks are financing a community preservation corporation in Crown Heights, Brooklyn (New York Times, October 5, 1977:68). And in Chicago a group of banks is financing a $150 million suburb-within-a-city project on a 51-acre abandoned railroad site south of Chicago's downtown area which will consist of 3,000 residential units, a school, a park and other recreational facilities, stores, restaurants, medical and professional offices (Oakland Tribune, May 5, 1977).

This movement to replace older urban neighborhoods with new ones for middle class dwellers has received its biggest push from the federal government through its home mortgage program, generally referred to as "Fannie Mae." In February 1977, Vice President Walter F. Mondale announced the National Mortgage Association, "Fannie Mae" would more than triple its urban loan program to spur investments in inner cities (Buffalo Courier Express, February 7, 1979) by increasing its participation in the program by 500 million. This new federal initiative would make 1.4 billion available for inner city mortgage money without touching government funds. The federally chartered, privately owned corporation, "Fannie Mae" purchases from commercial lenders (generally, banks) housing mortgages. However, the original holder of the mortgage must agree to reinvest the money it receives from "Fannie Mae" in inner city property.

How is "Fannie Mae" fairing on the stock market. Great. On March 7, 1979 investment bankers priced $2 billion dollars of Federal National

Mortgage Association debentures to yield as much as 10 per cent (New York Times, March 7, 1979: D9). Fannie Mae's debentures are sold to investors as high yield bonds in which income from these bonds are tax exempt. Unlike the federal government's establishment of saving and loans' banks with its high interest on saving accounts which extracted money from the middle and low income indviduals to supply mortgage money for housing; "Fannie Mae" with its high yielding bonds is designed to extract money from the wealthy to expand the mortgage money pool.

What is "Fannie Mae's" history and present organizational and financial status (Standard and Poor's Corp., Friday, August 8, 1978)?

> Fundamental Position. The company was chartered as a unit of the Federal Government in 1938 to establish a market for first mortgages insured by the FHA. In 1968 it was split into two units, with the privately owned FNMA carrying on the secondary market functions of the predecessor and the Government National Mortgage Association (Ginny Mae) retaining certain specialized functions. FNMA's conversion to private status was completed in 1970 when stockholders elected a majority of the board of directors. However, it remains subject to certain Federal regulation. One-third of the 15-member board is appointed by the President of the U.S. and any director may be removed by the President for good cause; its debt securities have the status of Federal agency securities and all securities are "exempt securities" under SEC laws; issuance of all securities must have Government approval.
>
> The company is not engaged in the origination of mortgage loans. However, it is indirectly concerned with originations in that it conducts its current operations pursuant to commitments. Under its "free market system auction," it auctions at regular intervals funds for investment in home mortgages on a competitive bid basis. Purchase prices for mortgages on multifamily housing projects, although related to the prices obtained under the auctions, are established periodically by the company. Successful bidders receive a four-month commitment from FNMA to purchase their mortgages and are charged a fee of ½% which is due on receipt of the commitment. The company also offers a 12-month convertible standby commitment for a fee of 1% of the commitment amount as follows.

> At the time of obtaining a 12-month commitment, a fee of ½% of the commitment amount is due. A fee of an additional ½% is due either upon delivery of mortgages at the standby yield or upon conversion of the entire commitment to a more advantageous yield to the commitment holder. The company pays a fee of 3/8% to those servicing mortgages purchased pursuant to commitments issued.
>
> Until recently, sellers of single-family mortgages to FNMA were required to purchase its common stock in a ratio to the amount of mortgages sold; this rule was suspended through April 30, 1978. Such sellers, however, if they engage in servicing mortgages for FNMA, must retain a minimum amount of FNMA's stock equal to 0.17% of mortgages received. Institutional Holdings. Institutions: 158. Shares: 21,372,000 (39% of the total outstanding). Capitalization (6/30/78). Short Term Debt: $7,832,840,000, incl. $4,730,080,000 of discount notes. Long Term Debt: $38,507,144,000, incl. $117,338,000 of 4 3/8% capital debs. due Oct. 1, 1996, conv. into com. at $19.63 a sh. Common Stock: 54,986,484 shs. (no par).

In addition to the expansion of the mortgage pool by the federal government through the FNMA ("Fannie Mae"), state and local governments are also establishing similar programs to expand the pool of mortgage money. To date, 28 states have some form of mortgage assistance and in some states such as New York, plans are underway to allow local governments to float bonds to raise additional mortgage money for local projects (Buffalo Evening News, Tuesday, March 20, 1979: 10, and Wednesday, February 28, 1979: Section III-35).

Among the cities most active in using "Fannie Mae's" funds are: St. Louis, Houston, Dallas, Cleveland, San Diego, Minneapolis, Madison, Wisconsin, San Francisco, Chicago, Seattle, Kansas City, Los Angeles, and Worcester, Massachusetts. Since these cities do not represent a clear pattern of city types, it may be assumed these cities have excellent planning departments.

The gravity of the problem is well stated in a New York Times (July 1, 1977) editorial titled, "When City Revival Drives Out the Poor."

> The first law of urban dynamics is change, and the first law of change is that what helps some hurts others. The much-hoped-for miracle of revival in older city neighborhoods is having an unanticipated victim: the urban poor.
>
> The revival has been slow, but it defies the projections of most urban analysts who had written off the center city. Neighborhood revitalization depended until recently on those who believe in historic architecture and city life and were willing to invest sweat and savings to turn a neighborhood around. One house led to another, and then to rows of handsomely restored old buildings, upgraded property values, and the anchoring of middle class residents essential to the city's survival. Because the scale was small and the risks were great, the early efforts looked more like grass-roots integration than a displacement of low-income and minority residents.
>
> But displacement became evident with the arrival of speculators. They come almost on signal, when enough has been done by pioneering individuals to make an area attractive and salable. they acquire blocks instead of single houses, buying rapidly with funds that are suddenly available after years of neighborhood redlining. They drive up values and taxes so that poorer residents must leave. This aggravates a problem that has been responsible for the most conspicuous failure of urban renewal--there is no place for the poor to go.
>
> With all of the advantages of economic and environmental regeneration, the reclamation of "lost" neighborhoods has turned out to be almost exclusively a middle class activity. The trend will continue as long as the high cost and scarcity of new housing make these substantial older city dwellings a good investment. It is therefore time for Federal and local agencies to devise policies that will assist urban rehabilitation within a broader social and economic range.
>
> This can be done only if neighborhood revitalization is seen as more than a housing issue; it must be recognized as an important tool in the struggle to revive older cities, to achieve economic as well as racial integration of neighborhoods. Fair housing enforcement is one device, but not enough; financial aid is also necessary.

These are great suggestions, but the law of finance will still hold, the poor will always occupy the least expensive housing; and such housing in the future will be found in the older suburbs surrounding the central cities.

As this exchange proceeds it will cause upheaval in both inner city and suburban schools. The most dangerous effect of this population shift will probably be to weaken support for public education, from the beginning. The new middle class arriving in the city will probably opt to enroll their children in private schools because of the past reputation of inner city schools; and middle class families who cannot leave suburban communities in transition will also probably opt to enroll their children in private schools because of fear that the quality of education in public schools will decline. The results will be increased pressure for support for public aid to private schools and declining support for public education. In addition, the suburban communities in transition receiving new residents of lower economic status are expected to be involved in the greatest amount of social and political upheaval; while the inward migration of more affluent residents is expected to be met with less social upheaval. Nevertheless, while the middle class return to the city may cause less public unrest, there is likely to be a great amount of unrest among the professional teaching staff in how to meet the more academic demands of the new middle class after years of baby-sitting children of the poor.

Educational researchers should attempt to assess the nature and extent of this population exchange between the inner cities and their suburbs in order that many of these expected problems may be aborted. It is with this notion that a first step should be to design an instrument to measure the scope and intensity of future problems in this area. Specifically, we should pull together a team of experts and community people (local urban and suburban educators, bankers, realtors, local and state politicians, and parents) to explore measures of forecasting

the scope and intensity of the problems; and to suggest ways in which communities in transition may effectively deal with the problems. This plan would: (1) first, put together a team consisting of bankers in the home mortgage business, realtors, large home developers, and local and state politicans to devise a method for determining neighborhoods in immediate danger of transition and how one may measure or predict a timetable before complete transition takes place; (2) second, we should share this information with local parents, school board members, and school administrators in order to get their view on how best to handle the situation in each community surveyed by the team above; (3) third, we should get together with representatives of educators in a sample of the communities surveyed to get their reactions as to how they perceive the problem and give possible solutions for aborting expected problems; and (4) fourth, get together with local and state political leaders and share the information gathered from the groups above to get their reactions as to how and what government can do to ease the pains of this transition.

Granted such work is exploratory, but it is necessary to refine our instruments in this area before the problems are upon us. Now is the time to plan, not in the middle of the confusion which is certain to come.

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